EXPERIENCE • STABILITY • OPPORTUNITY

ANNUAL REPORT 2003

ALGONQUIN POWER
Income Fund

Algonquin Power
Income Fund

The Algonquin Power Income Fund owns or has interests in a diverse portfolio of operating assets including 47 hydroelectric facilities, six natural gas-fired cogeneration facilities and five alternative fuels facilities. In addition, Algonquin owns six water reclamation and distribution facilities in the southern United States.

INDEX

FINANCIAL HIGHLIGHTS

(Thousands of Canadian dollars except as noted)

Years ended December 31	2003	2002	2001	2000	1999	1998
Statement of Operations Data						
Energy Sales						
Hydroelectric	$ 44,413	$ 40,681	$ 36,270	$ 43,996	$ 13,709	$ 4,711
Cogeneration	61,890	23,566	-	-	-	-
Alternative fuels	6,423	4,994	1,020	-	-	-
Total energy sales	$ 112,726	$ 69,241	$ 37,290	$ 43,996	$ 13,709	$ 4,711
Waste disposal sales	14,650	10,697	-	-	-	-
Water reclamation/distribution	20,237	7,974	2,522	-	-	-
Interest and dividend income	6,608	6,851	5,157	2,697	5,896	3,601
Total revenue	$ 154,221	$ 94,763	$ 44,969	$ 46,693	$ 19,605	$ 8,312
Operating Profit						
Hydroelectric	$ 29,045	$ 26,985	$ 24,835	$ 33,351	$ 13,051	$ 5,269
Cogeneration	23,773	15,069	1,166	-	-	-
Alternative fuels	9,328	7,292	719	-	-	-
Infrastructure	11,117	4,678	1,199	-	-	-
Other	278	851	2,530	1,063	2,016	1,225
Total operating profit	$ 73,541	$ 54,875	$ 30,449	$ 34,414	$ 15,301	$ 6,494
Earnings *	53,147	26,726	18,662	23,937	8,732	3,745
Net earnings	44,507	16,150	6,864	13,364	7,209	3,195
Per trust unit	0.66	0.28	0.17	0.54	0.37	0.29
Distributions to unitholders	62,402	55,192	37,302	24,755	18,467	9,281
Per trust unit	0.92	0.92	0.92	0.97	0.90	0.835
Cash available for distribution	58,368	44,742	28,813	19,235	13,779	8,192
Per trust unit	0.86	0.77	0.73	0.78	0.70	0.75
Balance Sheet Data						
Cash and cash equivalents	$ 21,238	$ 24,838	$ 31,713	$ 9,580	$ 9,602	$ 2,124
Working capital	9,337	15,376	19,011	2,024	(768)	(2,044)
Capital and intangible assets, and long-term investments	765,053	674,495	467,312	310,056	305,084	130,124
Total assets	820,295	723,038	512,384	328,502	325,988	135,096
Long-term liabilities and revolving line of credit	166,713	86,099	50,665	73,244	83,985	4,758
Unitholders' equity	519,876	537,771	411,613	219,559	205,221	123,944
Number of Units Outstanding As of December 31	67,887,612	67,887,612	50,875,772	27,020,472	24,020,472	14,090,472

*before interest expense, loan payment fee and income from note prepayment.

REPORT TO UNITHOLDERS

Experience, Stability & Opportunity

"Cumulative cash generated per trust unit exceeded cash distributed in the last three quarters of 2003, a significant improvement over the same period in 2002."

Algonquin Power Income Fund distributed $0.92 per trust unit during 2003, consistent with the previous year.

The Fund's diversification strategy, launched in 2001 and accelerated in 2002 to mitigate potential volatility inherent in hydroelectric facilities as a result of naturally occurring hydrologic conditions, was further solidified and strengthened during 2003 to enhance the stability of distributions to unitholders.

The current diversified asset portfolio was in place beginning in the second quarter of the year. Since that time the Fund has generated cash available for distribution greater than actual cash distributions. For 2003 the Fund generated $58.4 million of cash available for distribution ($0.86 per trust unit) compared to $44.7 million ($0.77 per trust unit) the year previous.

Throughout the year management focused on consolidating the expanded portfolio to optimize the performance of assets in the Hydroelectric, Cogeneration, Alternative Fuels and Infrastructure Divisions. Two important accretive acquisitions were completed during the first quarter and contributed to improved overall results.

The prudence of the diversification strategy, the committed focus by management to optimize operational performance and secure complementary accretive acquisitions, plus stronger hydrologic conditions all contributed significantly to improved results in 2003.

Quarterly Cash Available for Distribution ■
vs. Cash Distributed ■

Diversification to balance risk, enhance opportunity

The diversification strategy was established to provide a solid balance among hydroelectric, cogeneration, alternative fuels and infrastructure assets to minimize risk and enhance stability of distributions to unitholders.

During 2003, the Fund achieved improved overall revenue, earnings and earnings per trust unit. Revenues increased to $154.2 million compared to $94.8 million the year previous. Net earnings increased to $44.5 million compared to $16.2 million. Net earnings per trust unit increased to $0.66 from $0.28.

Since 2001 the overall portfolio has been balanced and for 2004 operating profits are forecast to include hydroelectric (34%), natural gas cogeneration (35%), alternative fuels or biomass-fired generating assets (12%) and infrastructure (19%). The Fund is well positioned to provide stable, predictable and increasing cash distributions to unitholders.

Optimizing operational performance

The Fund introduced a divisional corporate structure in late 2002. It established divisional management positions and filled these positions with sector-specific industry professionals with established track records. This organizational change began to produce its intended results last year. Strategic capital expenditure and cost-focused improvements to operations within the four divisions contributed to improved equipment uptime, timely preventive maintenance and improved overall operational results during 2003.

This process of optimization had direct and tangible effect on the four operating divisions. In 2003, the Hydroelectric Division achieved 97 per cent of its revenue target and operating profit objective. The Cogeneration Division achieved 101 per cent of its revenue target and 98 per cent of its operating profit target. The Alternative Fuels Division achieved 98 per cent of its revenue target and 85 per cent of its operating profit target. The Infrastructure Division achieved 97 per cent of its revenue target and 92 per cent of its operating profit target. These results represented a marked improvement over the prior year's results.

In addition to improving operational performance of the existing asset base, two accretive acquisitions were completed. The Litchfield Park Services Company, a water distribution and reclamation facility in Arizona and the 56 MW Windsor Locks cogeneration facility in Windsor Locks, Connecticut were acquired in the first quarter of the year.

The Fund has maintained a Standard & Poor's SR-2 (Very High) stability rating for more than four years and an A- bank credit rating for the past two years.

Improved hydrology

The performance of the Hydroelectric Division was significantly stronger as a result of improved hydrologic conditions. Energy produced during 2003 was 97 per cent of long-term averages, unlike recent years when drought and drought-like conditions prevailed throughout many of the regions where the Fund operates hydroelectric assets. By comparison, energy produced during 2001 and 2002 was 82 per cent of long-term averages.

Outlook – Stability and Opportunity

The Fund remains committed to improving the performance of existing assets and identifying and securing complementary accretive acquisitions to improve the stability of distributions to unitholders, balance risk and enhance growth opportunities.

Cash generated by operations of the four Divisions during 2004 is expected to exceed current distribution levels subject to continuing average hydrologic conditions and the continued benefits of portfolio diversification.

Fund management continues to search for new opportunities in its current target markets which offer highly predictable cash flows and regulated market structure. In the Infrastructure Division, the fastest growing of the four divisions, the target markets have the additional feature of offering the unitholders infinitely long-lived assets with considerable opportunity for growth.

The capitalization of the Fund is strengthened by your support and confidence. The Fund continues to enjoy access to capital through capital markets and our established banking credit facilities. We look forward to maintaining stable cash flows and growing the Fund's portfolio in the coming year.

On behalf of the Trustees and the Manager, thank you for your continued support.

K Moore

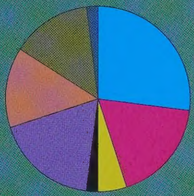
Ken Moore, Chairman

2003 OPERATING PROFIT

Before depreciation

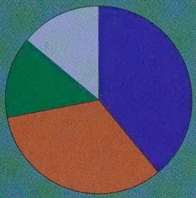
By Location

Ontario	27%
Quebec & Atlantic Canada	18%
Western Canada	5%
New York	2%
New England	18%
Arizona	14%
California	14%
U.S. other	2%



By Category

Hydroelectric	39%
Cogeneration	33%
Alternative Fuels	14%
Infrastructure	14%



(L to R) Trustees: Christopher Ball, George Steeves and Ken Moore.

EXPERIENCE

A team of industry professionals

"The diversification strategy has created a broader base of production among the asset categories to balance risk and create future opportunities."

The Algonquin Power Income Fund was established in 1997 to provide unitholders with stable, predictable income by capitalizing on the inherent advantages of independent power production. These advantages include low operating costs, long-term asset life, proven low-risk technology and stipulated rate revenues from long-term power purchase agreements.

Beginning in 2000, drought and drought-like conditions persisted in many regions of North America where the Fund operates hydroelectric assets. A diversification strategy was launched in 2001 to offset weak hydrology that adversely affected hydroelectric generation and, as a result, the Fund's revenues, net earnings and net earnings per trust unit.

The Fund's assets were organized into four Divisions in 2002. Management put in place an experienced team of industry professionals to focus on operational excellence in each Division. The management structure and the resulting focus on strategic capital expenditure and other operational issues contributed to improved equipment uptime, timely preventive maintenance and improved overall operational results during 2003.

The diversification strategy focused on adding complementary power generation technologies that offer the opportunity for sustainable, highly stable and growing cash flows. These technologies include:

Cogeneration. Cogeneration is the use of primary energy to produce heat and electricity. It provides predictable generation with no natural fluctuations, low-risk technology using proven turbine engines, power purchase agreements matched with gas supply and revenues based on long-term agreements.

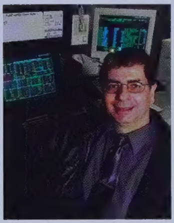
Alternative Fuels. Biomass is one type of alternative fuel source that produces steam or combustible gas to drive a turbine generator to produce electricity. These assets use non-fossil fuels to produce electricity and are highly efficient and environmentally preferable. Electricity is sold pursuant to long-term power purchase agreements.

Infrastructure. In addition, the Fund management also identified infrastructure assets such as water reclamation and distribution facilities as another source of predictable cash flows arising from a captive user base within a regulated utility. These assets offer infinitely long-term sole source supply opportunities with growing cash flows.

Since its inception the diversification strategy has successfully contributed to sustaining distributions to unitholders during the drought and drought-like conditions that impacted hydroelectric production. It has also created a broader base of production among the asset categories to balance risk and create opportunities in the future.

(L to R) The Management Group: David Kerr, Executive Director, Safety and Environmental Compliance, Ian Robertson, Executive Director, Business Development, Peter Kampian, Chief Financial Officer, and Chris Jarratt, Executive Director, Operations. Not shown: John Huxley, Executive Director, Administration.

Bob Dodds, Director of Operations



Andy Ling, Manager Hydroelectric Division

Ford Scissons, Manager Cogeneration & Alternative Fuels Divisions

Mike Weber, Manager Infrastructure Division

Today, the Algonquin Power Income Fund owns or has interests in a diverse portfolio of operating assets including 47 hydroelectric generating plants, six cogeneration facilities, five alternative fuels operations and six infrastructure facilities that distribute or reclaim water.

During 2004, the four divisions are expected to produce the following operating profit before depreciation: •Hydroelectric 34% (2003 39%) •Cogeneration 35%(2003 33%) •Alternative Fuels 12% (2003 14%) •Infrastructure 19% (2003 14%).

Q What acquisitions were completed in 2003?

A *The Fund completed the acquisition of the growing Litchfield Park Services Company for $34.9 million (U.S. $23.4 million) in February. Litchfield Park services approximately 10,800 water distribution and 10,700 water reclamation customers in the fast growing area surrounding the Town of Litchfield Park, Arizona pursuant to a certificate of convenience and necessity.*

During 2003, Litchfield Park's water distribution and water reclamation businesses have grown by 27 and 26 per cent, respectively. Gross revenue for 2003 was 119 per cent of target. Strong growth is expected to continue during 2004.

The Fund also completed the acquisition of the 56 MW Windsor Locks cogeneration facility in Windsor Locks, Connecticut for $44.0 million (U.S. $29.9 million) in March. The facility delivers electricity to the Connecticut Light and Power Company pursuant to a long-term power purchase agreement ending in 2010. In addition, the facility delivers thermal steam energy and a small portion of its electrical energy to a specialty fiber composite mill located adjacent to the generating facility pursuant to an energy services agreement ending in 2018.

The facility generated 118 per cent of its revenue target during 2003 primarily due to the indexing of sales to gas prices. It is expected to meet operating profit targets in 2004.

Q Explain the renegotiation of power purchase agreements for the 13 hydroelectric facilities in New Hampshire.

A *The Fund completed the renegotiation of 13 power purchase agreements, representing the Fund's total New Hampshire portfolio, with the Public Service of New Hampshire (PSNH) in May. The Fund received total proceeds from this transaction of $ 28.3 million (U.S. $20.4 million). Under the negotiated agreement, all energy generated from these facilities will be sold to PSNH at current market rates. Since the completion of this transaction, the market rates received for the energy from the New Hampshire sites have exceeded management expectations.*

STABILITY

Sustainable, cash distributions to unitholders

The Algonquin Power Income Fund is committed to providing sustainable, stable cash distributions to unitholders.

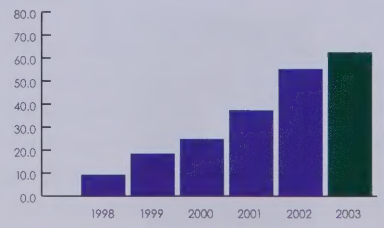
Since the second quarter of 2003, when the diversified asset portfolio was in place, the Fund has generated cash available for distribution greater than actual cash distributions. For 2003, the Fund generated $58.4 million of cash available for distribution ($0.86 per trust unit) compared to $44.7 million ($0.77 per trust unit) the year previous.

The Fund has built a diverse portfolio of power generation assets that offer diversification through technology, geography and markets. On a weighted average basis, power purchase agreements have an average lifespan of 14 years. Financial leverage is low, at 25 per cent of total invested capital.

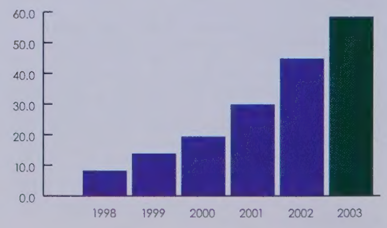
The Fund has maintained a Standard & Poor's SR-2 (Very High) stability rating for more than four years and an A- bank credit rating for the past two years.

"For 2003, the Fund generated $58.4 million of cash available for distribution ($0.86 per trust unit) compared to $44.7 million ($0.77 per trust unit) the year previous."

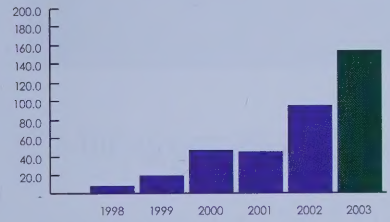
Annual distributions
$ millions



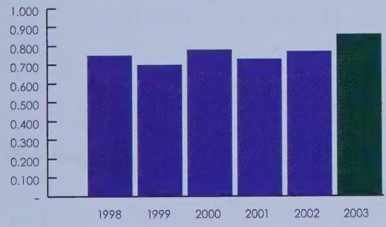
Cash available for distribution
$ millions



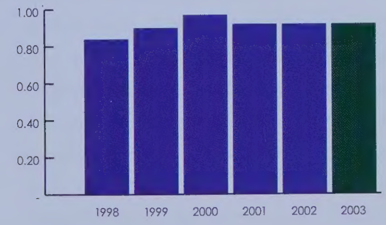
Annual revenues
$ millions



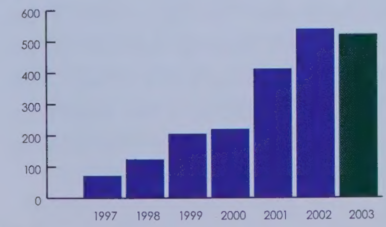
Cash available for distribution
$ per trust unit



Distribution to unitholders
$ per trust unit



Unitholders' equity
$ millions



Q How is the Fund impacted by changes in the rates of foreign exchange?

A *The Fund continues to benefit from forward contracts to fix its U.S. dollar exchange rate relative to expected future monthly cash flows. For 2004, the Fund has forward contracts totalling U.S. $12.8 million at an average rate of $1.51 Cdn. per U.S. dollar. This represents over 98 per cent of the Fund's forecasted 2004 distributions after capital expenditures.*

The Fund has entered into forward contracts that provide similar fixed exchange rate protection for approximately 55 per cent of the forecasted U.S. dollar denominated cash flows for 2005, 2006 and 2007.

Q How is the Fund managing its environmental, health and safety obligations?

A *The Fund continues to emphasize its corporate responsibilities in the areas of environmental, health and safety. In 2003 the Manager strengthened its environmental health and safety group by adding experienced professionals to strengthen tracking, reporting and mitigating environmental and regulatory compliance related to the Fund's assets as well as enhancing health and safety at our facilities.*

Q Is the Fund impacted by rising prices of natural gas?

A *In general, all of the Fund's facilities which consume natural gas enjoy hedging arrangements which insulate the economic performance of these facilities from changing natural gas prices.*

The only exception to this is the relatively low volumes of natural gas consumed by the Peel energy-from-waste facility acquired as part of the KMS Income Fund acquisition in 2002 which are purchased under fixed price agreements extending until 2007. The Manager is considering alternatives including re-hedging on a rolling basis to mitigate the potential impact.

OPPORTUNITY

Growing demand & infrastructure growth

The Fund's diversification strategy was established in 2001, accelerated in 2002 and solidified in 2003 to provide a solid balance among hydroelectric, cogeneration, alternative fuels and infrastructure assets to minimize risk and enhance stability of distributions to unitholders.

Today the Fund's assets are deployed in hydroelectric generation (38%), natural gas cogeneration (23%), alternative fuels or biomass-fired generating assets (16%) and infrastructure including water provision and recycling assets (21%), with the balance as administrative assets (2%). The Fund is positioned well to provide stable, predictable and increasing cash distributions to unitholders.

The Infrastructure Division, the fastest growing division, became a more significant contributor to operating earnings in 2003. This growth was accelerated by the completion of the Litchfield Park Services Company acquisition early in the year.

Hydrologic conditions

Widespread weak hydrologic conditions are a potential risk capable of impacting adversely on the performance of the Fund's 'run-of-the-river' hydroelectric assets. Such drought or drought-like conditions existed across a wide area of North America over most of the last several years.

Three of the Fund's largest hydroelectric power generation facilities – Long Sault Rapids in Ontario; Côte Ste-Catherine in Quebec; and Dickson Dam in Alberta – are forecasted to produce almost half of the Division's gross revenues in the first quarter of 2004.

Long Sault generated 99 per cent of targeted production in 2003 and is expected to produce 110 per cent of target in the early part of 2004 as levels in both the Abitibi River and Lake Abitibi are expected to remain high.

Côte Ste-Catherine generated 94 per cent of targeted production in the third and fourth quarters of 2003, an increase from 91 per cent in the second quarter. The facility depends on water levels in the St. Lawrence Seaway. It is anticipated that levels in the Seaway will be much higher during early 2004 than the previous two years, but will not return to long-term average levels through the first quarter.

"The Fund is positioned well to provide stable, predictable and increasing cash distributions to unitholders."

Dickson Dam is located at the outlet of the Dickson Dam Reservoir. Fourth quarter production was 87 per cent of target; 89 per cent for 2003. Reservoir levels are expected to be slightly above normal in early 2004. The freshet refilling of the reservoir is expected to begin late in the first quarter or early in the second quarter, 2004.

"Management will continue to seek accretive acquisitions to build the portfolio of assets."

Infrastructure Opportunities

Unlike most electrical generating facilities, the water distribution and reclamation utilities owned by the Fund's Infrastructure Division provide the unique opportunity for organic growth. As additional homes are built in the geographic areas served by the Fund's utilities, the Infrastructure Division has the legislated right to garner the benefit of increased revenues and income from these customers. The focus of the Fund's Infrastructure Division investment initiatives in the fast growing southwestern United States is expected to yield substantial growth opportunities. Management will continue to seek accretive acquisitions to build this portion of the Fund's portfolio.

Electrical Production – Growing Demand

The Fund is a participant in an industry which is undergoing substantial change. Recent market instability created by situations such as the California power crisis of 2002 have delayed the implementation of many power projects needed to meet continuing increases in electrical demand. Accordingly, while national generation capacity in the United States is expected to continue to grow in 2004, the margin of generating capacity over expected demand in the northeast United States is projected to drop to less than 14 per cent.

Q What is the outlook for each of the Fund's four Divisions in 2004?

A Hydroelectric Division

Following the first quarter of 2003, most regions in which the Fund operates facilities enjoyed improved hydrologic conditions, providing generation levels closer to long-term averages. These improved conditions have continued into the first quarter of 2004 and, assuming continuation of average hydrologic conditions, the Hydroelectric Division is expected to perform in accordance with management expectations for the remainder of 2004. In 2004, the Fund intends to continue to enhance unitholder value by improving efficiency of hydroelectric operations, continuing to seek opportunities to renegotiate existing contracts and pursuing hydroelectric acquisitions which provide sustainable accretion to unitholders. Continued emphasis will be placed on acquisitions which provide geographic diversification of regional hydrologic and market concentrations.

Cogeneration Division

The Fund's focus within the Cogeneration Division will be on maintaining the reliable supply of generation from all facilities and pursuing opportunities to realize additional revenues. These opportunities include the sale of excess power generation, increasing electrical load requirements of the steam host at the Windsor Locks facility and sales of thermal energy at the Sanger facility.

Alternative Fuels Division

The Fund intends to focus efforts on improving performance of the Alternative Fuels Division by initiating a Production Recovery Action Plan at the Peel energy-from-waste facility. This plan will include equipment constraint identification, prioritizing production improvement initiatives and improved employee training. In addition, the Fund expects to realize additional operating profit at the Peel facility through improved use of process by-products such as ash and ferrous metals.

Infrastructure Division

The addition of new customers within the water and waste water utilities owned by the Fund occurred at a brisk rate during 2003. The Fund expects the strong pace of organic growth within existing utilities to continue throughout 2004, providing continued revenue and operating profit growth for the Infrastructure Division. In addition to the benefits provided through such significant organic growth, the Fund also intends to pursue opportunities for adding new customers by providing water distribution and water reclamation services in areas contiguous to existing Fund utilities.

(See Management Discussion and Analysis for more information.)

Windsor Locks, Connecticut – cogeneration facility operations team.

"Increased demand for electrical power is projected to result in higher market prices. These market forces are anticipated to drive capacity additions, creating attractive investment opportunities for the Fund"

In eastern Canada, a similar situation exists with electrical demand exceeding domestic supply. Continuing growth in demand for electricity and difficulties with Ontario's fleet of nuclear generating stations are contributing to this capacity shortfall. In addition, the provincial government has stated its objective to close approximately 7500 MW of coal-fired electric generating plants in the Province to reduce greenhouse gases. The government of Ontario's commitment to implement electricity pricing which is reflective of the true cost of generation is expected to result in higher electricity prices for consumers.

All of these factors are expected to provide two opportunities for the Fund. First, increased demand is projected to result in higher market prices for electricity and the small portion of the Fund's generating assets whose revenues are determined by such market forces will enjoy the benefits of this growing supply demand imbalance. Second, it is expected that the development of additional power facilities will present attractive investment opportunities to the Fund.

MANAGEMENT DISCUSSION AND ANALYSIS

(All figures are in thousands of Canadian dollars, except per unit values)

For the fourth quarter ended December 31, 2003, Algonquin Power Income Fund (the "Fund") reported revenue of $40.9 million compared to $25.6 million for the same period of 2002. Net earnings for the quarter increased to $6.4 million from $3.5 million for the same quarter during 2002. Net earnings per trust unit increased to $0.10 in the fourth quarter of 2003 from $0.05 in the fourth quarter of 2002.

For the fourth quarter of 2003, the Fund generated $0.26 per trust unit of cash available for distribution, compared to $0.19 for the same period in 2002. The Fund maintained distributions during the quarter at $0.23 per trust unit.

For the year ended December 31, 2003, the Fund reported revenue of $154.2 million compared to $94.8 million for 2002. Net earnings increased to $44.5 million compared to $16.2 million for 2002. Net earnings per trust unit increased to $0.66 from $0.28 in 2002.

The Fund generated $0.86 per trust unit of cash available for distribution during 2003, compared to $0.77 for 2002. Since the beginning of the second quarter 2003, when the current asset portfolio was fully in place, the Fund has generated cash available for distribution greater than actual cash distributions.

The Fund maintained year-to-date distributions per trust unit at $0.92 for both 2003 and 2002.

Hydroelectric

Cogeneration

Alternative Fuels

Infrastructure

Financial and Operational Highlights

	Three Months Ending December 31		Year Ended		
	2003	**2002**	**2003**	**2002**	**2001**
Revenue	40,858	25,618	154,221	94,763	44,969
Net Income	6,419	3,494	44,507	16,150	6,864
Distribution to Unitholders	15,600	15,601	62,402	55,192	37,302
Cash Available for Distribution	17,400	12,662	58,368	44,742	28,813
Per Unit					
Net Income	0.10	0.05	0.66	0.28	0.17
Distribution to Unitholders	0.23	0.23	0.92	0.92	0.92
Cash Available for Distribution	0.26	0.19	0.86	0.77	0.73

For the fourth quarter of 2003, revenue and net income increased compared to the same period during 2002 primarily because results included the revenue and net income for the full quarter from the Windsor Locks cogeneration facility, the Litchfield Park Services Company water distribution and reclamation facility and two water reclamation facilities in Texas. Revenue and net income from these facilities were not included in results for the fourth quarter of 2002 because the acquisitions were not completed at that time. The fourth quarter of 2003 also included improved results from the Hydroelectric Division compared to the fourth quarter of 2002 as well as improved revenue performance at the Peel energy-from-waste facility.

For the year ended December 31, 2003, revenue and net income were higher than the prior year because the Fund included the results of the additional facilities acquired in early 2003. In addition, the revenue and net income also includes the results of the Peel energy-from-waste facility, the Crossroads cogeneration facility and the Joliet biogas facility, all acquired at the end of the first quarter, 2002 as well as the Sanger cogeneration facility and the Bella Vista water distribution facility which were acquired during the second quarter, 2002.

The information in this Management Discussion and Analysis is supplemental to and should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2003. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar.

The term 'cash available for distribution' is used throughout this Management Discussion and Analysis. Cash available for distribution is not a recognized measure under accounting principles generally accepted in Canada. The Fund's method of calculating cash available for distribution may differ from methods used by other companies and accordingly may not be comparable to similar measures presented by other companies. A calculation of cash available for distribution can be found in this Management Discussion and Analysis.

Homer Lensink, Manager - Technical Services.

Significant Transactions

The Fund completed three significant transactions during 2003:

Litchfield Park Services Company

On February 25, 2003, the Fund completed the acquisition of the Litchfield Park facility for $34.9 million (U.S. $23.4 million). Litchfield Park services approximately 10,800 water distribution and 10,700 water reclamation customers in the fast growing area surrounding the town of Litchfield Park, Arizona pursuant to a certificate of convenience and necessity.

In accordance with the agreement of purchase and sale, the Fund paid an additional $7.0 million (U.S. $5.4 million) in December, 2003 to the vendor as a result of the growth in the customer base incurred since January 1, 2003. Strong growth is expected to continue during 2004.

Windsor Locks

On March 10, 2003, the Fund completed the acquisition of the 56 MW Windsor Locks cogeneration facility in Windsor Locks, Connecticut for $44.0 million (U.S. $30.0 million). The facility delivers electricity to the Connecticut Light and Power Company pursuant to a long-term power purchase agreement ending in 2010. In addition, the facility delivers thermal steam energy and a small portion of its electrical energy to a specialty fiber composite mill located adjacent to the generating facility pursuant to an energy services agreement ending in 2018.

PSNH Agreements

On May 31, 2003, the Fund completed the renegotiation of 13 power purchase agreements, representing the total New Hampshire portfolio, with the Public Service of New Hampshire (PSNH). Pursuant to the renegotiation agreement, the Fund received total proceeds from this transaction of $28.3 million (U.S. $20.4 million). In return, all energy generated from these facilities will be sold to PSNH at the New England Power Pool current market rates. The Fund has placed in escrow $2.9 million (U.S. $2.1 million) of the proceeds pending the resolution of payment of certain lease obligations with the State of New Hampshire. The money held in escrow is not reflected in the Fund's financial statements because the certainty of the Fund receiving these proceeds is not known.

Operating Results By Division

HYDROELECTRIC

All figures in thousands of dollars except as noted

	Three Months Ending December 31		Year Ended December 31		Forecast Production
	2003	**2002**	**2003**	**2002**	**2004**
Performance (MW-hrs sold)					
Quebec Region	79,789	53,361	265,452	247,966	289,972
Ontario Region	41,094	26,451	131,721	123,427	139,997
New England Region	26,805	13,030	84,400	48,001	72,517
New York Region	28,501	18,259	90,304	66,512	78,120
Western Region	10,805	11,508	59,947	48,120	67,248
Total	186,994	122,609	631,824	534,026	647,854
Revenues					
Energy Sales	11,340	9,902	44,413	40,681	
Other Income	196	245	494	674	
Total	11,536	10,147	44,907	41,355	
Expenses					
Operating Expenses	3,613	3,701	15,862	14,370	
Division Operating Profit	7,923	6,446	29,045	26,985	

During the fourth quarter of 2003, revenue from the Hydroelectric Division was \$11.5 million compared to \$10.1 million for the same period in 2002. As a result of improved energy generation representing 114 per cent of long-term averages during the fourth quarter, the Hydroelectric Division posted improved year-over-year revenues notwithstanding the reduction in electricity rates paid in respect of the New Hampshire facilities following the PSNH contract renegotiation. By comparison, drought conditions in the same period of 2002 in the regions where Hydroelectric Division facilities are located resulted in electrical generation representing only 77 per cent of long-term averages.

For the full year 2003, revenue from the Hydroelectric Division was \$44.9 million compared to \$41.4 million in 2002. Revenue for the year increased due to improved energy production notwithstanding the reduction in electricity rates paid in New Hampshire following the contract renegotiation. Energy produced during 2003 represented 97 per cent of long-term averages compared to 82 per cent of long-term averages during the prior year.

Operating expenses for the Hydroelectric Division during the fourth quarter of 2003 were \$3.6 million, representing a slight reduction over the \$3.7 million spent in the fourth quarter of 2002. For the full 2003 year, Hydroelectric Division operating expenses of \$15.9 million were higher than the \$14.4 million in 2002 due to higher regulatory fees related to improved generation and increased repair and maintenance costs incurred primarily during the first quarter of 2003.

Owing to improvement in hydrologic conditions, the Hydroelectric Division was able to post operating profit for the fourth quarter of 2003 of \$7.9 million. This profit exceeded management expectations and represented an improvement over the \$6.4 million realized during the fourth quarter of 2002. For the full year 2003, operating profit was \$29.0 million compared to \$27.0 million in 2002. Operating profit for 2003 was slightly below management's expectations due to the generally poor hydrologic conditions which continued through the first quarter of the year.

Outlook

Following the first quarter of 2003, most regions in which the Fund operates facilities enjoyed improved hydrologic conditions, providing generation levels closer to long-term averages. These improved conditions have continued into the first quarter of 2004 and, assuming continuation of average hydrologic conditions, the Hydroelectric Division is expected to perform in accordance with management expectations for the remainder of 2004. In 2004, the Fund intends to continue to enhance unitholder value by improving efficiency of hydroelectric operations, continuing to seek opportunities to re-negotiate existing contracts and pursuing hydroelectric acquisitions which provide sustainable accretion to unitholders. Continued emphasis will be placed on acquisitions which provide geographic diversification of regional hydrologic and market concentrations.

Certain hydroelectric generating facilities owned by the Fund qualify for consideration as "green" energy. The Fund plans to actively pursue revenue opportunities presented by the emerging markets for renewable energy credits in the United States and the trading of greenhouse gas credit emissions in Canada. The Fund also plans to pursue longer-term power purchase agreements for the sale of green energy from those facilities which are currently selling electricity in the open market.

"The Hydroelectric Division was able to post operating profit for the fourth quarter of 2003 of $7.9 million, representing an improvement over the $6.4 million realized during the fourth quarter of 2002."

COGENERATION

All figures in thousands of dollars except as noted

	Three Months Ending December 31		Year Ended December 31		Forecast Production
	2003	**2002**	**2003**	**2002**	**2004**
Performance (MW-hrs sold)	136,888	46,363	443,419	118,433	550,136
Revenues					
Energy Sales	17,179	7,217	61,890	23,566	
Interest and Dividend Income	827	915	4,641	3,758	
Total	18,006	8,132	66,531	27,324	
Expenses					
Operating Expenses	12,162	4,261	42,758	12,255	
Division Operating Profit	5,844	3,871	23,773	15,069	

The Cogeneration Division posted revenues of $18.0 million during the fourth quarter of 2003, compared to $8.1 million generated during the same period in 2002. The revenue for the fourth quarter of 2003 included the full quarter results of the Windsor Locks facility. During the full 2003 period, the Cogeneration Division generated revenues of $66.5 million, an increase over the $27.3 million of revenues recorded for 2002. Such revenue increases are primarily due to the full year inclusion of the Sanger and Crossroads facilities acquired in 2002 and the Windsor Locks facility purchased in March, 2003. The Windsor Locks facility provided revenue of approximately $10.5 million during the fourth quarter of 2003 and approximately $34.5 million of revenue for the period in 2003 since it was acquired.

Fourth quarter operating expenses in the Cogeneration Division were $12.2 million compared to $4.3 million in the same period of 2002. The increased expenses were the result of the Windsor Locks facility being included in the portfolio for the full fourth quarter of 2003. For the year ended December 31, 2003, operating expenses were $42.8 million compared to $12.3 million in 2002 due to the additional facilities added to the portfolio. The Windsor Locks facility incurred operating expenses of approximately $8.0 million for the fourth quarter of 2003 and $26.3 million for the entire period of 2003 that the facility was owned by the Fund. During the first half of 2003, the Sanger facility underwent a major periodic overhaul at a cost of $5.5 million. These costs will be amortized over the six-year expected life of the overhaul.

Operating profit for the Cogeneration Division in the fourth quarter increased to $5.8 million from $3.9 million in 2002. For the year ended December 31, 2003, operating profit increased to $23.8 million from $15.1 million in 2002. While the results from the Cogeneration Division exceeded management expectations during the fourth quarter of 2003, the full 2003 operating results were slightly below management expectations primarily due to higher than expected repair and maintenance costs.

Outlook

The Fund's focus within the Cogeneration Division will be on maintaining the reliable supply of generation from all facilities and pursuing opportunities to realize additional revenues. These opportunities include the sale of excess power generation, increasing electrical load requirements of the steam host at the Windsor Locks facility and sales of thermal energy at the Sanger facility. In addition, the Fund will continue to consider the sale of contracted natural gas when pricing in the natural gas market allows. Under the terms of the energy services agreement for the Crossroads facility, higher 2003 fuel costs which negatively impacted operating results are contractually expected to be offset by higher revenues during 2004.

"Opportunities include the sale of excess power generation, increasing electrical load requirements of the steam host at the Windsor Locks facility and sales of thermal energy at the Sanger facility."

ALTERNATIVE FUELS

All figures in thousands of dollars except as noted

	Three Months Ending December 31		Year Ended December 31		Forecast Production
	2003	**2002**	**2003**	**2002**	**2004**
Performance (MW-hrs sold)	25,782	23,139	97,335	82,724	149,520
Performance (tonnes waste processed)	41,354	42,985	155,250	130,793	173,424
Revenues					
Energy Sales	1,587	755	6,423	4,994	
Waste Disposal Sales	4,333	4,361	14,650	10,697	
Interest and Dividend Income	95	(161)	1,150	1,470	
Total	6,015	4,955	22,223	17,161	
Expenses					
Operating Expenses	3,241	2,989	12,895	9,869	
Division Operating Profit	2,774	1,966	9,328	7,292	

Revenue posted during the fourth quarter of 2003 from the facilities owned by the Alternative Fuels Division increased to $6.0 million from $5.0 million generated in 2002. Such increases are primarily the result of improved year-over-year energy production. For the year ended 2003, the Alternative Fuels Division posted revenues of $22.2 million, representing an increase of approximately $5.0 million over the $17.2 million realized during 2002. This increase can be attributed to the full year inclusion of the Peel energy-from-waste facility and Joliet landfill gas facility acquired at the end of the first quarter, 2002 and improved fourth quarter revenues from the Peel facility.

Operating expenses incurred in the Alternative Fuels Division were $3.2 million in the fourth quarter of 2003, representing a slight increase compared to $3.0 million spent during for the fourth quarter of 2002. Higher repair and maintenance costs at the Peel and Drayton Valley facilities were the primary contributors to the increase. For the year ended December 31, 2003, operating expenses were $12.9 million compared to $10.0 million during the same period in the prior year. The increase is primarily due to the full year inclusion of the operating costs for Peel and Joliet facilities acquired at the end of the first quarter in 2002.

The Alternative Fuels Division realized operating profit of $2.8 million during the fourth quarter of 2003 compared to $2.0 million for the same period in 2002. For the fourth quarter, the Alternative Fuels Division performed in accordance with management expectations. For the year ended December 31, 2003, operating profit was $9.3 million compared to $7.3 million in 2002. The Alternative Fuels Division performed below management expectations for the full year primarily due to higher than anticipated repair and maintenance costs incurred at all three facilities.

Outlook

The Fund intends to focus efforts on improving the performance of the Alternative Fuels Division by initiating a Production Recovery Action Plan at the Peel energy-from-waste facility. This plan will include equipment constraint identification, prioritizing production improvement initiatives and improved employee training. In addition, the Fund expects to realize additional operating profit at the Peel facility through improved use of process by-products such as ash and ferrous metals.

The facilities owned by the Alternative Fuels Division are characterized as "green" energy. The Fund plans to pursue revenue opportunities presented by the emerging markets for renewable energy credits in the U.S. and the trading of greenhouse gas credit emissions in Canada.

"The Alternative Fuels Division increased revenue to $6.0 million from $5.0 million generated in 2002. Such increases are primarily the result of improved year-over-year energy production."

Dan Pearce, Plant Manager
Peel Energy-from-Waste facility

INFRASTRUCTURE

All figures in thousands of dollars except as noted

	Three Months Ending December 31		Year Ended December 31		Forecast Connections
	2003	**2002**	**2003**	**2002**	**2004**
Number of Water Reclamation Customers	18,831	7,210	18,831	7,210	20,475
Number of Water Distribution Customers	17,948	6,971	17,948	6,971	21,409
Revenues Water Reclamation and Distribution	5,247	2,509	20,237	7,974	
Other Income	13	5	45	98	
Total	5,260	2,514	20,282	8,072	
Expenses					
Operating Expenses	2,465	857	9,165	3,394	
Division Operating Profit	2,795	1,657	11,117	4,678	

Revenues earned by the Infrastructure Division during the fourth quarter of 2003 increased to $5.3 million over the $2.5 million posted during the same period in 2002. The increase is primarily due to the inclusion of the Litchfield Park Services Company and two small water reclamation utilities in Texas for the full quarter contributing approximately $3.1 million in increased revenues during the fourth quarter. In addition to the acquisition of additional utility businesses, the Infrastructure Division enjoyed continued customer base growth in its existing utilities. Customer count during the fourth quarter of 2003 increased approximately 4 per cent. For the year ended December 31, 2003, revenue increased to $20.3 million from $8.1 million in 2002 as a result of inclusion of these additional utilities (providing $11.1 million in additional revenue) and organic growth through additional customer connections.

The Infrastructure Division incurred operating expenses of $2.5 million in the fourth quarter of 2003, compared to $0.9 million for the same period in 2002. For the year ended December 31, 2003, operating expenses increased to $9.2 million from $3.4 million in 2002. The increased costs for both the fourth quarter and full 2003 year resulted from inclusion of the additional facilities acquired and costs incurred to service the additional customer connections. The acquired facilities were responsible for additional costs of $1.6 million for the quarter and $5.2 million for the full year. In addition, certain costs were incurred relating to management reorganization initiatives which have helped the Infrastructure Division streamline operations and reduce on-going customer service costs.

Operating profit for the fourth quarter of 2003 increased to $2.8 million in comparison to $1.7 million earned in the fourth quarter of 2002. Fourth quarter operating profit in 2003 was below management expectations primarily due to higher operating costs. For the year ended December 31, 2003, operating profit increased to $11.1 million from $4.7 million in 2002. These results were above management expectations primarily due to higher revenue from faster-than-anticipated growth.

"The revenue and operating profit increases are primarily due to the inclusion of the Litchfield Park Services Company and two small water reclamation utilities in Texas…"

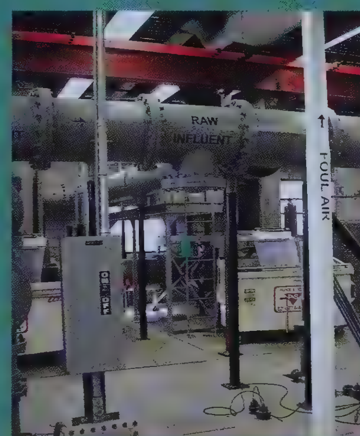
Outlook

The addition of new customers within the water and waste water utilities owned by the Fund occurred at a brisk rate during 2003. The Fund expects the strong pace of organic growth within existing utilities to continue throughout 2004, providing continued revenue and operating profit growth for the Infrastructure Division. In addition to the benefits provided through such significant organic growth, the Fund intends to pursue opportunities for adding new customers to provide water distribution and water reclamation services in areas contiguous to existing Fund utilities.

The Fund plans to continue to upgrade existing facilities through several capital expansion programs. The Gold Canyon Sewer Company is poised to commence construction of a significant plant expansion including a new treatment facility and decommissioning of a portion of the existing facility. Upon completion of the planned changes, the Gold Canyon facility will be well equipped to handle the high customer growth which is expected to continue over the next several years. Within the Litchfield Park service area, several pipeline expansions are planned for completion in 2004 which will facilitate continued land development and increasing customer connections over the next several years.

The Fund expects to complete the management reorganization initiative commenced in the third quarter of 2003. These changes are intended to enhance operations of the Infrastructure Division and will integrate the administration of the Infrastructure Division with the Fund's other operating divisions.

During 2004, the Fund intends to aggressively pursue accretive acquisitions of water distribution and water reclamation opportunities within the Infrastructure Division to enhance unitholder value. The Fund will target utilities located in high-growth regions in the southern United States and other areas which provide predictable and sustainable cash flows.



DEVELOPMENT CHRONOLOGY

Algonquin Power acquisitions…

"The Fund owns and operates 264 MW of generating capacity. Its water reclamation and distribution assets provide service to 37,000 connections."

Year	Asset	Regions	Facilities	Capacity (MW)	Connections	Events
1997	Hydroelectric	4	14	19		Initial Public Offering, $80 Million
1998	Hydroelectric	5	29	69		Secondary Offering, $65 Million
1999	Hydroelectric	5	38	101		Secondary Offerings, $100 Million
2000	Hydroelectric	5	41	171		Secondary Offering, $28 Million
2001	Hydroelectric	6	47	141		Secondary Offerings, $235 Million
	Cogeneration		Interest in 3	288		
	Alternative Fuels		Interest in 3	66		
	Infrastructure		2		4,500	
2002	Hydroelectric	6	47	141		Secondary Offering, $171 Million
	Cogeneration		Interest in 3 Own/Operate 2	288 54		
	Alternative Fuels		Interest in 3 Own/Operate 2	66 13		
	Infrastructure		5		13,500	
2003	Hydroelectric	6	47	141		
	Cogeneration		Interest in 3 Own/Operate 3	288 109.5		
	Alternative Fuels		Interest in 3 Own/Operate 2	66 13		
	Infrastructure		6		36,800	

ADMINISTRATIVE EXPENSES

All figures in thousands of dollars except as noted

	Three Months Ending December 31		Year Ended December 31	
	2003	**2002**	**2003**	**2002**
Administrative Expenses	1,631	2,071	5,577	4,911
Business Development Costs	-	-	572	-
Management Costs	196	140	710	658
Withholding Taxes	97	100	525	558
(Gain)/Loss on Foreign Exchange	(2,810)	(1,486)	(17,364)	1,643
Interest Expense	3,228	2,589	11,631	8,382
Income Taxes Expense (Recovery)	1,701	(370)	(4,408)	1,283

For the fourth quarter of 2003, administrative expenses decreased to $1.6 million from $2.1 million in the fourth quarter of 2002, primarily due to lower legal costs. For the year ended December 31, 2003, administrative expenses increased to $5.6 million from $4.9 million in 2002. The increase for the full year was primarily the result of the additional administrative costs associated with acquisitions made by the Fund, higher unitholder communication costs and increased professional services including legal, audit and tax-related costs.

The strengthening of the Canadian dollar against the U.S. dollar resulted in an unrealized foreign exchange gain of $2.8 million for the fourth quarter of 2003 compared to a gain of $1.5 million in the same period in 2002. For the full year, the Fund posted a foreign exchange gain of $17.4 million, of which $15.4 million is unrealized, compared to a foreign exchange loss in 2002 of $1.6 million.

The unrealized foreign exchange gain is primarily the result of the U.S. dollar denominated debt obligations of the Fund.

Interest expense increased to $3.2 million in the fourth quarter, 2003 from $2.6 million in the fourth quarter, 2002 as a result of increased utilization of the acquisition line of credit and the additional project level debt assumed by the Fund in the acquisition of the Litchfield Park facility. For the year ended December 31, 2003, interest expense increased to $11.6 million from $8.4 million in 2002.

During the fourth quarter of 2003, the Fund recorded an income tax expense of $1.7 million. Substantially all of this amount is related to future income tax expense. In the fourth quarter of the prior year, the Fund recorded an income tax recovery of $0.4 million, of which $0.6 million was a future tax recovery and the difference represented a current income tax expense. For the year ended December 31, 2003, the Fund recorded an income tax recovery of $4.4 million, of which $5.6 million was future income tax recovery and the difference of $1.2 million represented a current income tax expense. The year to date compares to a $1.3 million income tax expense in the prior year, of which $0.5 million was a future income tax expense and the balance was a current income tax expense. The primary reason for the future tax recovery during the current year relates to tax losses incurred in the KMS Power Income Fund. The Fund anticipates utilizing such tax losses before expiration.

CASH AVAILABLE FOR DISTRIBUTION

All figures in thousands of dollars except as noted

	Three Months Ending December 31		Year Ended December 31	
	2003	**2002**	**2003**	**2002**
Cash flow from operating activities	12,533	2,473	58,209	36,364
Changes in Working Capital	4,660	6,704	322	4,247
Operating Cash Flow before Working Capital Changes	17,193	9,177	58,531	40,611
Receipt of Principal on Notes Receivable	1,348	1,160	3,194	2,738
Decrease/(Increase) in Reserves	110	499	319	1,854
Repayment of Long-term Liabilities	(329)	(136)	(828)	(929)
Maintenance Capital Expenditures (net of capital grants and asset disposal)	(153)	1,365	(1,325)	979
Other	(769)	597	(1,523)	(511)
Cash Available for Distribution	17,400	12,662	58,368	44,742
Cash Available for Distribution per trust unit	0.26	0.19	0.86	0.77
Distribution to Unitholders	15,600	15,601	62,402	55,192
Distribution to Unitholders per trust unit	0.23	0.23	0.92	0.92

During the fourth quarter of 2003, the Fund increased cash available for distribution to $17.4 million from $12.7 million produced in the same period of 2002. On a per unit basis, the Fund generated $0.26 of cash available for distribution in the fourth quarter of 2003, compared to $0.19 during the fourth quarter of 2002. For the year ended December 31, 2003, the Fund generated $58.4 million of cash available for distribution compared to $44.7 million during the same period in 2002. This equates to $0.86 per trust unit for the year ended December 31, 2003, comparing favourably to $0.77 per trust unit generated during 2002.

Cash available for distribution generated by the Fund since April 2003, the date when the acquisitions representing the current asset portfolio were complete, totalled $48.2 million. This is in excess of cash distributions from the Fund for the same period, underscoring the continued dividends that the diversification strategy is providing.

The Fund distributed $15.6 million for the fourth quarters of both 2003 and 2002. On a per unit basis, the Fund distributed $0.23 per trust unit for the third quarters of 2003 and 2002. For the year ended December 31, 2003, the Fund distributed $62.4 million during 2003 compared to $55.2 million during the same period in 2002. Per unit distributions remained at $0.92 per trust unit for both 2003 and 2002. The shortfall in cash available for distribution was funded out of working capital.

DISTRIBUTION OUTLOOK FOR 2004

Management believes that cash generated by the operations should be in line with current distribution levels assuming average hydrologic conditions and the continued benefits of the portfolio diversification.

LIQUIDITY AND CAPITAL RESERVES

At the end of 2003, the Fund had $21.2 million of cash and cash equivalents and positive net working capital of $9.3 million.

Long-term liabilities were $165.1 million at the end of 2003, compared to $85.2 million at the end of 2002. The increase in long-term liabilities since the end of 2002 is due to the addition of non-recourse facility level debt related to the Litchfield Park acquisition in the first quarter of 2003 as well as use of the Fund's credit line for the acquisition of the Windsor Locks and Litchfield Park facilities.

The Fund has arranged an acquisition line of credit with a banking syndicate totalling $115.0 million. At the end of 2003, the Fund had $70.9 million drawn on the facility in addition to $30.7 million represented by letters of credit which have been posted on behalf of the Fund. Under the terms of the credit agreement, the Fund is required to pay a standby charge of 0.425% on the undrawn portion of the credit facility.

For 2004, the Fund anticipates spending $0.5 million for overhaul-related costs at Windsor Locks and additional amounts relating to costs associated with continued customer growth within the Litchfield Park utility. The Fund anticipates financing these expenditures with cash flow generated from operations, the credit facility and additional unit offerings.

On June 30, 2004, the KMS Power Income Fund ("KMS") convertible debentures come due. Under the terms of these debentures, KMS has the option of repaying these debentures by way of issuing KMS Power Income Fund trust units or payment in cash. Although KMS is a reporting issuer, the KMS Power Income Fund trust units do not trade on any stock exchange or other public market. If KMS elects to repay such debentures by way of issuance of KMS Power Income Fund trust units, there can be no assurances as to the liquidity of such trust units. The Fund is assessing its options with respect to this matter.

At the end of 2003, the Fund has a strong balance sheet with a long-term debt-to-equity ratio of 32 per cent.

At the end of 2003, the Fund has the following contractual obligations for the next five years.

	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due After 5 years
Long-term debt obligations	166,713	1,596	2,002	2,386	160,729
Other obligations	9,987	372	693	4,538	4,384
Total obligations	176,700	1,968	2,695	6,924	165,113

In addition to the above obligations, the Fund has commitments to pay certain additional amounts to the vendors of the Litchfield Park and Woodmark facilities tied to customer growth in these utilities. As the quantum of such growth is not determinable, management is unable to quantify these amounts. The Fund has obligations with respect to lease and land and/or water rights for certain hydroelectric facilities. These obligations are based on power production by these facilities. Such obligations are not quantifiable since power production is related to future hydrologic conditions.

DEALINGS WITH ALGONQUIN POWER GROUP

During 2003, companies related to the Manager provided operations and technical services on a cost recovery basis. Details are outlined in note 12 of the audited financial statements.

RISK MANAGEMENT

The Fund continues to enjoy the benefits of forward contracts to hedge its U.S. dollar exchange rate relative to expected future monthly cash flows. At the end of 2003, the Fund has forward contracts for 2004 totalling U.S. $12.8 million at an average rate of $1.51 Cdn. per U.S. dollar. This represents over 98 per cent of the Fund's forecasted 2004 distributions after capital expenditures. The Fund has entered into forward contracts that provide similar fixed exchange rate protection for approximately 55 per cent of the forecasted U.S. dollar denominated cash flows for 2005, 2006 and 2007.

The Fund has also hedged the price of its natural gas exposure until 2007. After 2007, there is no exposure on those facilities using natural gas because of pass through provisions in their respective energy agreements, except for the Peel facility, which will be rehedged on a rolling basis.

The Fund maintains insurance on all of its facilities. This includes property and casualty, boiler and machinery and liability insurance.

ACCOUNTING POLICIES

The Fund recognizes revenue derived from energy sales at the time energy is delivered. Water reclamation and distribution revenue is recognized when customers are billed. Revenue from waste disposal is recognized on an actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts is recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected rate is the expected price for the contract year and any amount billed in excess of the expected rate is deferred.

The Fund books deferred credits received by the Infrastructure Division, which relate to advances from developers for water and sewage main extensions received. These advances usually carry repayment terms based on the revenue generated by the development in question ranging for a term of 10 to 15 years. At the end of the payment term, the unpaid portion of the advance converts to contribution in aid of construction and is not required to be repaid to the developer. The Fund records the deferred credits based on its expected repayments as determined by historical experience.

The Fund records capital assets such as land, facilities and equipment at cost. Improvements that increase or prolong the service life or capacity of an asset are also capitalized at cost. Intangible assets such as power purchase contracts acquired, licensing costs and customer relationship costs are recorded at cost. The Fund reviews capital and intangible assets for permanent impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable.

The Fund enters into forward and swap contracts to hedge against possible fluctuations in commodity prices and its exposure to the U.S. dollar. Gains and losses from these activities are reported as adjustments to the related revenue or expense account as they are settled.

OUTLOOK

The Fund will continue to identify opportunities to allow it to optimize the performance of its portfolio. Management is focusing its efforts on integrating recently acquired facilities and identifying efficiency opportunities to enhance unitholder value. Assuming long-term average hydrology and no unforeseen events, the Fund is expecting to generate cash available for distribution consistent with current levels in 2004.

The Fund will continue to look for opportunities to expand and continue its diversification strategy.

The Fund continues to be an industry leader in the areas of the environment and health and safety. The Fund maintains continuous health and safety training for all Fund operations and maintenance staff. All the Fund's facilities are in compliance in all material respects with local and federal environmental regulations. The Fund continues to upgrade the facilities' environmental controls utilizing best available technology.

The Fund plans to invest in information technology to reduce administrative costs by implementing a new supply chain management system and integrated billing and customer protocols.

In keeping with the emerging Ontario Securities Commission requirements, the Fund plans to review and document its controls and procedures for annual certification of the financial statements.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2003.

$ millions except per trust unit amounts

2003	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Revenues	29.2	44.2	39.9	40.9	154.2
Net earnings	6.5	21.5	10.0	6.5	44.5
Net earnings per trust unit	0.10	0.32	0.15	0.10	0.66
Total assets	828.7	829.0	822.2	820.3	820.3
Long-term debt	185.7	178.6	177.8	185.3	185.3
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92
2002					
Revenues	15.7	28.4	25.1	25.6	94.8
Net earnings (loss)	6.1	10.3	(3.8)	3.6	16.2
Net earnings (loss) per trust unit	0.12	0.18	(0.07)	0.05	0.28
Total assets	599.3	713.2	712.5	723.0	723.0
Long-term debt	58.2	156.2	165.8	98.3	98.3
Distribution per trust unit	0.23	0.23	0.23	0.23	0.92

Recently Issued Canadian Accounting Standards

In January, 2003, The Canadian Institute of Chartered Accountants ("CICA") issued "Handbook Section 3110, Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Section 3110 requires the Fund to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. If the obligation is settled for other than the carrying amount of the liability, the Fund will recognize a gain or loss on settlement. The Fund is required and plans to adopt the provisions of Section 3110 as of January 1, 2004. To accomplish this, the Fund must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Fund to gather market information and develop cash flow models. Additionally, the Fund will be required to develop a process to track and monitor these obligations. Because of the effort necessary to comply with the adoption of Section 3110, it is not practicable for management to estimate the impact of adopting this standard at the date of this report.

Note

Certain statements contained in the information herein are forward-looking and reflect the Fund's and its Manager's views with respect to future events. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Forward-looking statements are not guarantees of the Fund's future performance or results and are subject to various factors, including, but not limited to, assumptions such as those relating to: the performance of the Fund's assets, commodity market prices, interest rates and environmental and other regulatory requirements. Although the Fund and its Manager believe that the assumptions inherent in these forward-looking statements are reasonable, undue reliance should not be placed on these statements, which apply only as of the dates hereof. The Fund and its Manager are not obligated nor do either of them intend to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

AUDITORS' REPORT

We have audited the consolidated balance sheets of Algonquin Power Income Fund as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 13, 2004

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and December 31, 2002

(Thousands of Canadian dollars)

	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 21,238	$ 24,838
Accounts receivable	20,297	14,894
Prepaid expenses	1,530	692
Current portion of notes receivable (note 4)	1,478	1,317
Future income tax asset (note 11)	105	102
	44,648	41,843
Long-term investments (note 4)	59,190	64,172
Future non-current income tax asset (note 11)	6,809	4,083
Capital asset, net of amortization (note 5)	622,051	547,880
Intangible assets, net of amortization (note 6)	82,334	61,126
Funds held in reserve	3,963	2,548
Deferred costs (net of amortization $657, 2002 - $539)	1,300	1,386
	$ 820,295	$ 723,038
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 19,907	$ 12,196
Due to Algonquin Power Group	1,035	1,241
Cash distribution payable	10,400	10,400
Current portion of long-term liabilities (notes 8 and 9)	1,961	1,355
Current income tax liability	1,142	831
Future income tax liability (note 11)	866	444
	35,311	26,467
Long-term liabilities (notes 7 and 8)	165,117	85,157
Other long-term liabilities (note 9)	9,622	7,392
Deferred credits	10,627	5,752
Future non-current income tax liability (note 11)	64,683	46,839
Minority interest	15,059	13,660
Unitholders' equity		
Trust units (note 10)	638,213	638,213
Deficit	(118,337)	(100,442)
	519,876	537,771
Commitments and contingencies (notes 2 and 13)		
	$ 820,295	$ 723,038

Guarantees (note 19)

Approved by the Trustees George Steeve, K Moore

CONSOLIDATED STATEMENTS OF EARNINGS & DEFICIT

December 31, 2003 and December 31, 2002

(Thousands of Canadian dollars)

	2003	2002
Revenue		
Energy sales	$ 112,726	$ 69,241
Waste disposal fees	14,650	10,697
Water reclamation and distribution	20,237	7,974
Interest, dividend income and other income	6,608	6,851
	154,221	94,763
Expenses		
Operating (note 12)	80,680	39,888
Amortization capital assets	25,424	17,206
Amortization intangible assets	4,950	3,173
Management costs (note 12)	710	658
Administrative expenses	5,577	4,911
Business development	572	-
Withholding taxes	525	558
(Gain) loss on foreign exchange	(17,364)	1,643
	101,074	68,037
Earnings before undernoted	53,147	26,726
Interest expense	11,631	8,382
	11,631	8,382
Earnings before income taxes and minority interest	41,516	18,344
Current income taxes (note 11)	1,175	756
Future income taxes (note 11)	(5,583)	527
	(4,408)	1,283
Minority interest	1,417	911
Net earnings	44,507	16,150
Deficit, beginning of year	(100,442)	(61,400)
Cash distributions (note 15)	(62,402)	(55,192)
Deficit, end of year	$ (118,337)	$ (100,442)
Basic and diluted net earnings per trust unit (note 16)	$ 0.66	$ 0.28

CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2003 and December 31, 2002

(Thousands of Canadian dollars)

	2003	2002
Operating Activities		
Net earnings	$ 44,507	$ 16,150
Items not affecting cash		
Amortization of capital assets	25,424	17,236
Amortization of intangible assets	4,950	3,173
Other amortization	2,934	1,649
Minority interest	1,417	911
Distribution received in excess of equity income	242	30
Future income taxes	5,583	527
(Gain)/loss on foreign exchange	(15,360)	965
	58,531	40,611
Changes in non-cash operating working capital	(322)	(4,247)
	58,209	36,364
Financing Activities		
Cash distributions	(62,402)	(55,192)
Issue of trust units	-	98,504
Expenses of trust unit offerings	-	(5,525)
Deferred costs	(641)	(1,324)
Net increase/(decrease) in long-term liabilities	70,605	(4,898)
Other	358	(1,152)
Deferred credits	(211)	-
	7,615	32,717
Investing Activities		
Decrease in reserve funds	310	1,854
Receipt of principal on notes receivable	3,194	2,738
Additions to capital assets	(12,071)	(6,549)
Additions to intangible assets	(289)	
Power Purchase Contract Renegotiation (note 3)	25,357	
Proceeds on sale of capital assets	-	920
Acquisitions of operating entities (note 2)	(84,895)	(74,897)
	(68,385)	(75,934)
Effect of exchange rate differences on cash and cash equivalents	(1,039)	(22)
Decrease in cash	(3,600)	(6,875)
Cash and cash equivalents, beginning of year	24,838	31,713
Cash and cash equivalents, end of year	$ 21,238	$ 24,838
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	$ 9,551	$ 7,655
Cash paid during the year for income taxes	$ 854	$ 157

NOTES

To the consolidated financial statements
December 31, 2003 & 2002
(Thousands of Canadian dollars except as noted)

Algonquin Power Income Fund (the "Fund") is an open-ended unincorporated trust established pursuant to the Declaration of Trust dated September 8, 1997, as amended, under the laws of the Province of Ontario. The Fund's principal business activity is the ownership, directly or indirectly, of generating and infrastructure facilities.

The Fund is managed by Algonquin Power Management Inc. ("APMI"), a company wholly owned by the shareholders of Algonquin Power Corporation Inc. ("APC"). A subsidiary of APC, Algonquin Power Systems Inc. ("APS"), is responsible for the operation of the Fund's facilities. Algonquin Power Acquisition Partnership, a partnership ultimately owned by APC, provides consulting services to the Fund. Algonquin Water Services LLC ("AWS"), formally Newspring Limited Partnership ("Newspring"), a partnership jointly owned by APC and the Fund, manages and operates the water reclamation facilities in Arizona. Collectively, these entities are referred to as the Algonquin Power Group.

1. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada and include the consolidated accounts of all of its subsidiaries. The Fund consolidates its proportionate share in the Campbellford Limited Partnership ("Campbellford") and the Valley Power Limited Partnership.

All significant intercompany transactions and balances have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents include cash deposited at banks and highly-liquid investments with original maturities of 90 days or less.

(c) Funds held in reserve

Cash reserves segregated from the Fund's cash balances are maintained in accounts administered by a separate agent and disclosed separately in these consolidated financial statements as the Fund cannot access this cash without the prior authorization of parties not related to the Fund.

(d) Capital assets

Capital assets, being land, facilities and equipment, are recorded at cost. Development costs, including the cost of acquiring or constructing facilities together with the related interest costs during the period of construction are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred.

The facilities are amortized on a straight-line basis over their estimated useful lives. These periods range from 15 to 40 years. Facility equipment and overhauls are amortized over 3 to 6 years.

(e) Intangible assets

Power purchase contracts acquired are amortized on a straight-line basis over the remaining term of the contract. These periods range from 6 to 15 years from date of acquisition.

The costs attributable to establishing exemptions from Federal Energy Regulatory Commission licensing requirements in the United States are being amortized on a straight-line basis over five years.

Hydro contract acquisition costs are amortized on a straight-line basis over 6 years.

Customer relationships are amortized on a straight-line basis over 40 years.

(f) Impairment of long-lived assets

The Fund reviews capital assets and intangible assets for permanent impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to expected future cash flows. If the carrying amount exceeds the expected future cash flows, the asset is written down.

(g) Notes receivable

Notes receivable are carried at cost. A provision for credit losses on notes receivable is charged to the statement of earnings and deficit to cover any losses of principal and accrued interest.

(h) Deferred costs

Deferred costs, which include the costs of arranging the credit facility, costs associated with periodic customer rate reviews with the utility governing bodies for the water reclamation and distribution facilities and costs of various reorganizations which provide benefits for a number of years, are amortized on a straight-line basis over the term of the expected benefit being 2 to 5 years.

(i) Long-term investments

Investments in which the Fund has significant influence but not control or joint control are accounted using the equity method. The Fund records its share in the income or loss of its investees in interest and dividend income in the consolidated statement of earnings and deficit. All other equity investments are accounted for under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments.

(j) Deferred credits

Certain of the water companies receive customer advances for water and sewage main extensions. The amounts advanced are generally repaid over a period of 10 years based on 10% of the revenues generated by housing/ development in the area developed. Advances not refunded within 10 years are not required to be repaid. These non-refunded amounts are credited against capital assets. When the Fund receives contributions in aid of construction with no repayment requirements, these are immediately treated as a capital grant and netted against capital assets.

Deferred water rights result from a hydroelectric generating facility which has a 50-year water lease with the first 10 years of the water lease requiring no payment. An average rate was estimated over the life of the lease and a deferral is booked based on this estimate which will be drawn down in the last 40 years.

(k) Recognition of revenue

Revenue derived from energy sales, which are mostly under long-term power purchase contracts, is recorded at the time electrical energy is delivered.

Water reclamation and distribution revenues are recorded when billed to customers.

Revenue from waste disposal is recognized on actual tonnage of waste delivered to the plant at prices specified in the contract. Certain contracts include price reductions if specified thresholds are exceeded. Revenue for these contracts are recognized based on actual tonnage at the expected price for the contract year and any amount billed in excess of the expected rate is deferred.

Interest and dividend income from long-term investments is recorded as earned.

(l) Foreign currency translation

The Fund's United States subsidiaries and partnership interests are considered to be functionally integrated with the Canadian operations. All monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at year-end exchange rates, whereas non-monetary assets and liabilities are translated at the rate in effect at the transaction date. The revenues and expenses of these integrated operations are translated at the average rate of exchange in effect during the period. The foreign currency translation adjustment is reflected in the consolidated statement of earnings and deficit.

(m) Derivatives contracts

The Fund enters into forward and swap contracts to hedge against possible fluctuations in commodity prices and its exposure to the U.S. dollar. Gains and losses from these activities are reported as adjustments to the related revenue or expense account as they are settled.

The Fund formally documents all relationships between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(n) Income taxes

As the Fund is an unincorporated trust, it is entitled to deduct distributions to unitholders to the extent of its taxable income and consequently it is expected that the Fund will not be liable for any material tax as this will be the responsibility of the individual unitholder. Any provision for income taxes will relate solely to the income taxes of the Fund's wholly owned subsidiaries.

Income taxes are accounted for using the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

A valuation allowance is recorded against future tax assets to the extent that it is more likely than not that the future tax asset will not be realized.

(o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from estimates. During the years presented, management has made a number of estimates and valuation assumptions including the useful lives and recoverability of capital assets and intangible assets, the recoverability of notes receivable and long-term investments, the recoverability of future tax assets, and the fair value of financial instruments and derivatives. These estimates and valuation assumptions are based on present conditions and management's planned course of action as well as assumptions about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

2. Acquisitions

(a) Acquisitions of facilities

On March 10, 2003 the Fund acquired a 56MW cogeneration generating facility in Windsor Locks, Connecticut and the related power sales contracts for total consideration of $44,009 (U.S. $30,028). The Windsor Locks generating station sells electricity to Connecticut Light and Power Company pursuant to a long-term power purchase agreement ending in 2010. In addition, the facility delivers steam energy and a small portion of electricity to a speciality fiber composites mill located adjacent to the facility pursuant to an energy services agreement ending in 2018.

On February 25, 2003 the Fund acquired the shares of Litchfield Park Services Company located in Phoenix, Arizona for $34,928 (U.S. $23,401) in the Infrastructure operating segment. The company currently services approximately 21,500 water and waste water customers. This acquisition has contingent payments based on the level of growth in the customer base over the next five years. On December 24, 2003, the Fund paid an additional $7,039 (U.S. $5,370) to the previous owner and increased intangible assets by a similar amount, net of future tax liabilities of $4,425.

In accordance with the purchase and sale agreement for Gold Canyon Sewer Company, the Fund is required to make additional payments to the previous owner for each additional customer connected to the utility. This agreement ended in July, 2003. As of December 31, 2003 the Fund has accrued $371 (U.S. $265) as a growth premium to be paid to the vendor of Gold Canyon Sewer Company, and increased intangible assets by a similar amount, net of future tax liabilities of $233.

The acquisitions have been accounted for using the purchase method, with earnings from operations included since the date of acquisition. The consideration paid by the Fund has been allocated to net assets acquired as follows:

	Cogeneration	Infrastructure	Total
Working capital	$ -	$ (470)	$ (470)
Funds held in reserve	-	1,786	1,786
Capital assets	31,614	79,529	111,143
Intangible assets	12,395	14,630	27,025
Long-term liabilities assumed	-	(20,981)	(20,981)
Other long-term liabilities assumed	-	(2,445)	(2,445)
Deferred credits	-	(2,128)	(2,128)
Future non-current income tax liability	-	(27,583)	(27,583)
Total purchase price	44,009	42,338	86,347
Less: cash acquired	-	(1,452)	(1,452)
Cash consideration paid	$ 44,009	$ 40,886	$ 84,895

Intangible assets in cogeneration include power purchase contracts which are amortized over the term of the contracts from 7 years to 15 years. Intangible assets in infrastructure include customer relationships which are amortized over 40 years.

Facility	Purchase Price	Nature of Acquisition	Date of Acquisition
Litchfield Park Services Company, Arizona	$ 41,967	Shares	February 25, 2003
Windsor Locks, Connecticut	44,009	Assets	March 10, 2003
Other	371		
	$ 86,347		

During 2002, the Fund completed the acquisition of all the outstanding trust units of KMS Power Income Fund ("KMS"), and 47.3% of the outstanding principal amount of convertible debentures of KMS. KMS owns directly or indirectly four power generation facilities: an energy-from-waste facility in Ontario; two natural gas-fired cogeneration facilities located in New Jersey and Illinois; and a landfill biogas-fired generating facility in Illinois. Through its Cogeneration Division, the Fund acquired a natural gas-fired generating station located in Sanger, California. Through its Infrastructure Division, the Fund acquired the shares of a water distribution company in Sierra Vista, Arizona and two water reclamation treatment companies in Tyler, Texas.

The consideration paid by the Fund has been allocated to net assets acquired as follows:

	KMS	Sanger	Infrastructure	Total
Working capital	$ (4,357)	$ 350	$ 2,694	$ (1,313)
Funds held in reserve	1,125	-	67	1,192
Other assets	425	77	-	502
Capital assets	88,321	66,929	44,835	200,085
Intangible assets	46,713	14,925	731	62,369
Long-term liabilities assumed	(2,806)	(30,403)	(3,629)	(36,838)
Other long-term liabilities assumed	(4,172)	(2,843)	(328)	(7,343)
Deferred credits	-	-	(2,563)	(2,563)
Minority interest	(13,001)	-	-	(13,001)
Future non-current tax asset	3,610	-	-	3,610
Future non-current income tax liability	(6,374)	-	(13,381)	(19,755)
Total purchase price	109,484	49,035	28,426	186,945
Less: cash acquired	(1,785)	-	(3,042)	(4,827)
loan advanced in 2001 (note 3)	(35,000)	-	-	(35,000)
trust units issued being non-cash consideration (note 10)	(70,040)	(2,181)	-	(72,221)
Cash consideration	$ 2,659	$ 46,854	$ 25,384	$ 74,897

Facility	Purchase Price	Nature of Acquisition	Date of Acquisition
KMS Peel, Ontario, KMS Crossroads, New Jersey, KMS Bakery, Illinois and KMS Joliet, Illinois	$ 109,484	Trust units and convertible debentures	March 15, 2002 and July 4, 2002
Sanger, California	49,035	Assets	May 1, 2002
Bella Vista, Arizona	21,600	Shares	May 23, 2002
Tall Timbers, Texas	3,419	Shares	November 5, 2002
Woodmark, Texas	2,096	Shares	December 18, 2002
Gold Canyon, Arizona	1,311	Shares	September 19, 2002
Total	$ 186,945		

Subsequent to the acquisition of KMS, under the terms of the Energy Services Contract between the cogeneration facility located in Illinois and the energy customer, the energy customer purchased the plant and equipment for $920 (U.S. $588). No gain or loss was recognized as the assets were appropriately written down at the acquisition date to their realizable value.

3. Power purchase contract renegotiation

On May 31, 2003, the Fund completed the renegotiation of 13 power purchase agreements with rate orders with Public Service Company of New Hampshire (PSNH). This represents the total New Hampshire hydroelectric portfolio of the Fund. The total proceeds from this transaction were $28,295 (U.S. $20,437). Of the total proceeds, $2,938 (U.S. $2,122) has been placed into escrow pending the resolution of payment of certain lease obligations with the State of New Hampshire. The financial statements do not reflect any balance for the funds held in escrow as the certainty of the Fund receiving these proceeds is not known at this time. The net proceeds of $25,357 have been used to pay down debt and fund working capital. The respective assets of the New Hampshire operations have been reduced by the amount of the net proceeds, accordingly no gain or loss has been recognized. The Fund will continue to own and operate the 13 small hydroelectric generating facilities and will sell all the electrical output from the facilities to PSNH at current market rates.

4. Long-term investments

	2003	2002
Debt and share interests in five generating facilities, ranging from 12.1% to 32.4% interests	$ 52,315	$ 55,625
A 45% partnership interest in the Algonquin Power (Rattle Brook) Partnership	3,860	3,894
	56,175	59,159
Campbellford Note Note bearing interest of 9.9415% repayable in monthly blended instalments of $32, maturing February 28, 2015	3,213	3,389
	1,280	2,941
	4,493	6,330
	60,668	65,489
Less: current portion	1,478	1,317
	$ 59,190	$ 64,172

The above notes are secured by the underlying assets of the respective facilities.

5. Capital assets

	Cost	2003 Accumulated amortization	2003 Net book value
Land	$ 11,444	$ -	$ 11,444
Facilities	663,633	62,875	600,758
Equipment	12,616	2,767	9,849
	$ 687,693	$ 65,640	$ 622,051

Facilities include $90,693 (2002 - $91,278) of net assets under capital lease.

Facilities include contributions received in aid of construction which do not have repayment requirements $1,234 (2002 - $0).

	Cost	2002 Accumulated amortization	2002 Net book value
Land	$ 7,825	$ -	$ 7,825
Facilities	575,312	39,467	535,845
Equipment	4,960	750	4,210
	$ 588,097	$ 40,217	$ 547,880

6. Intangible assets

	Cost	2003 Accumulated amortization	2003 Net book value
Power purchase contracts	$ 74,044	$ 7,280	$ 66,764
Hydro contract acquisition costs	1,442	1,442	-
Customer relationships	15,361	83	15,278
Licenses and agreements	1,044	752	292
	$ 91,891	$ 9,557	$ 82,334

	Cost	2002 Accumulated amortization	2002 Net book value
Power purchase contracts	$ 61,649	$ 2,733	$ 58,916
Hydro contract acquisition costs	1,442	1,211	231
Customer relationships	731	11	720
Licenses and agreements	1,878	619	1,259
	$ 65,700	$ 4,574	$ 61,126

7. Revolving credit facility

The Fund has negotiated a $115,000 revolving credit facility with a syndicate of Canadian banks which will mature August 31, 2005. Under the terms of the revolving credit facility, the Fund may acquire generating or infrastructure facilities which meet the Fund's acquisition guidelines. At December 31, 2003, the Fund has drawn $70,910, (2002 - $0) on the credit facility. In addition to the drawdown, the Fund has posted certain letters of credit totalling $30,669 (2002 - $31,726) as security. The terms of the credit agreement require the Fund to pay a standby charge of 0.425% on the unused portion of the revolving credit facility and maintain certain financial covenants. The facility is secured by a fixed and floating charge over all Fund entities.

A wholly owned trust of the Fund has an established credit facility for letters of credit up to an aggregate maximum of $5,000. Under the terms of the credit facility, the trust must meet certain financial covenants. At December 31, 2003, the trust has outstanding letters of credit totaling $4,518 (2002- $4,519).

8. Long-term liabilities

	2003	2002
Senior Debt Long Sault Rapids Interest at rates varying from 10.16% to 10.21% repayable in monthly blended instalments of $401, maturing December, 2028.	$ 43,710	$ 44,071
Senior Debt Chute Ford Interest rate of 11.55% repayable in monthly blended instalments of $64, maturing April, 2020.	5,596	5,706
Sanger Bonds California Pollution Control Finance Authority Variable Rate Demand Resource Recovery Revenue Bonds Series 1990A, payable monthly, maturing September, 2020. U.S. $19,200. The effective interest rate for 2003 is 1.11%. (2002 – 1.49%)	24,814	30,328
KMS Convertible Debentures Interest rate of 10%: interest payable semi-annually June and December, maturing June, 2004.	751	2,150
Bella Vista Water Loans Water Infrastructure Financing Authority of Arizona Interest rates of 6.10% and 6.26% repayable in monthly and quarterly instalments, maturing September, 2018 and June, 2021. The balance of these notes at December 31, 2003 was U.S. $147 and U.S. $1,937 respectively (2002 – U.S. $153 and U.S. $1,997).	2,693	3,397
Litchfield Park Services Company Bonds 1999 and 2001 IDA Bonds. Interest rates of 5.87% and 6.71% repayable in semi-annual instalments, maturing October 2023 and October 2031. U.S. $5,417 and U.S. $8,457, respectively.	17,931	-
National Bank Line of Credit (Note 7) Revolving line of credit interest rate is equal to bankers acceptance or LIBOR plus 125 basis points. Included in the balance is U.S. $3,000. The effective rate of interest for 2003 is 4.57%	70,910	-
Other	308	447
	$ 166,713	$ 86,099
Less: current portion	(1,596)	(942)
	$ 165,117	$ 85,157

Each of the facility level debt is secured by the respective facility with no other recourse to the Fund. The loans have certain financial covenants, which must be maintained on a quarterly basis.

Starting June 30, 2004, the KMS convertible debentures may be redeemed in whole or in part at the option of KMS for the principal amount plus accrued interest, provided the current market price preceding the date of the notice of redemption is not less then 115% of the conversion price. The debentures are convertible to KMS trust units at the option of the holder at a conversion price of $11.00 per trust unit until maturity.

Principal payments due in the next five years are:

2004	$	1,596
2005		958
2006		1,044
2007		1,138
2008		1,248
Thereafter		160,729
	$	166,713

9. Other long-term liabilities

		2003		2002
Joliet Subsidy Loan In accordance with Illinois law, a significant portion of the revenue received by KMS Joliet for the sale of electricity to the utility represents a subsidy. Repayment arrangements satisfactory to the State of Illinois must be implemented by 2007.	$	3,915	$	4,077
Melo Roos Obligation for real estate taxes for the Sanger plant due October 1, 2011 at interest rates varying from 4.75% to 5.55%. U.S. $1,530 (2002 – U.S.$1,680)		1,977		2,654
Other		4,095		1,074
	$	9,987	$	7,805
Less: current portion		(365)		(413)
	$	9,622	$	7,392

10. Trust units

Authorized trust units

The Declaration of Trust provides that an unlimited number of units may be issued. Each unit represents an undivided beneficial interest in any distribution from the Fund and in the net assets in the event of termination or wind-up. All units are the same class with equal rights and privileges.

Trust units are redeemable at the holder's option at amounts related to market prices at the time subject to a maximum of $250 in cash redemptions in any particular calendar month. Redemptions in excess of this amount shall be paid by way of a distribution in specie of a pro rata amount of certain of the Fund's assets, including the securities purchased by the Fund, but not to include the generating facilities.

Issued trust units	Number of units		Amount
Balance as at December 31, 2001	50,875,772		473,013
Issued during the year for cash	9,950,000		98,504
Issued pursuant to acquisition of KMS and Sanger (note 2)	7,061,840		72,221
Cost of issues			(5,525)
Balance as at December 31, 2002 and December 31, 2003	67,887,612	$	638,213

11. Income taxes

The provision for income taxes in the consolidated statements of earnings represents an effective tax rate different than the Canadian enacted statutory rate of 35.6% (2002 – 37.2%). The differences are as follows:

	2003	2002
Earnings before income tax and minority interest	$ 41,516	$ 18,344
Less: income taxed directly in hands of unitholders, not the Fund	(32,817)	(22,068)
Earnings / (losses) of taxable entities	8,699	(3,724)
Computed income tax expense (recovery) at Canadian statutory rate	3,097	(1,385)
Increase (decrease) resulting from:		
Change in substantively enacted tax rate	1,218	-
Operating in countries with different income tax rates	1,121	-
Valuation allowances	4,535	-
Manufacturing and processing deduction	14	(372)
Large corporations tax and alternative minimum tax	222	355
Unrealized foreign exchange rate difference	(2,302)	-
Unrealized foreign exchange rate differences on U.S. entity debt	(12,663)	-
Other	350	2,685
Income tax expense	$ (4,408)	$ 1,283

The tax effect of temporary differences at the Fund's subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2003 and 2002 are presented below:

	2003	2002
Future tax assets:		
Non-capital loss, debt restructuring charges and currently non-deductible interest carryforwards	$ 12,911	$ 13,349
Unrealized foreign exchange differences on U.S. entity debt	10,800	-
Other	123	235
Total future tax assets	23,834	13,584
Less: Valuation allowance	(17,911)	(5,174)
	5,923	8,410
Future tax liabilities:		
Capital assets –differences between net book value and undepreciated capital cost	(35,410)	(42,781)
Intangible assets – difference between net book value and cumulative eligible capital	(23,427)	(8,727)
Customer advances in aid of construction – difference between net book value and tax value	(5,721)	-
Total future tax assets	(64,558)	51,508
Net future tax liability	$ (58,635)	$ (43,098)
Classified in the financial statements as:		
Future current income tax asset	$ 105	$ 102
Future non-current income tax asset	6,809	4,083
Future current income tax liability	(866)	(444)
Future non-current income tax liability	(64,683)	(46,839)
	$ (58,635)	$ (43,098)

At December 31, 2003, the Fund itself has financing expenses and underwriters' fees of $9,266 (2002 - $14,670) which will be deductible by the Fund and which will reduce the ultimate amount taxable to the unitholders over the next four years. This will be offset by additions to the unitholders' taxable income since the Fund's capital assets have an accounting basis which exceeds their tax basis by $5,095 (2002 - $4,270). In addition, two trusts wholly owned by the Fund have capital assets with an accounting basis which exceeds their tax basis by $5,852 (2002 - $6,044).

12. Algonquin Power Group

(a) Management Agreement

The Fund has agreed to management agreements with APMI. The management services to be provided include advice and consultation concerning business planning, support, guidance and policy making and general management services. During 2002, these arrangements were amended to be on a cost recovery basis rather than a fee basis. The amended arrangements provide for an incentive fee of 25% on all distributable cash generated in excess of $0.92 per trust unit. During 2003 and 2002 no incentive fees were earned by APMI.

During 2003, APMI charged $710 (2002 - $658) for management services.

(b) Operations

The Fund's power generating facilities have direct operations contracts with APS. The direct operations contracts provide for the day-to-day services required to operate and maintain the facilities in addition to planning of capital repairs, compliance monitoring for environmental permits and administration of power purchase agreements. In 2003 and 2002, APS was paid on a cost recovery basis for all costs incurred.

During 2003, APS charged $11,386 (2002 - $10,238) for direct operation services.

(c) Water reclamation and distribution

The water reclamation and distribution facilities have direct operations contracts with AWS. The direct operations contracts provide for the day-to-day services required to operate and maintain the facilities. In 2003 and 2002, AWS was paid on a cost recovery basis for all costs incurred.

During 2003, AWS charged $5,176 (2002 - $1,847) for direct operation services.

(d) Other

During 2003, the Fund reimbursed APC $250 (2002 - $750) for legal fees paid by APC on behalf of the Fund to outside counsel.

13. Commitments and contingencies

(a) Land and Water Leases

Each of the operating entities has entered into agreements to lease either the land and/or the water rights for the hydroelectric generating facility or to pay in lieu of property tax an amount based on electricity production. The terms of these leases continue up to 2048. These payments typically have a fixed and variable component. The variable fee is generally linked to actual power production or gross revenue. The Fund incurred $2,865 during 2003 (2002 - $2,474) in respect of these agreements for the consolidated facilities.

(b) Contingencies

The Fund and its subsidiaries are involved in various claims and litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Fund's exposure to such litigation to be material to these financial statements.

14. Fair value of financial instruments and derivatives

The carrying amount of the Fund's cash and cash equivalents, accounts receivable, funds held in reserve, accounts payable and accrued liabilities, due to Algonquin Power Group and cash distribution payable, approximate fair market value due to the short-term nature of these financial instruments.

The carrying amount of the Fund's long-term investments is dependant on the underlying operations and accordingly a fair value is not readily available. The Fund has long-term liabilities at fixed interest rates. The fair value of these long-term liabilities at current rates would be $182,410 (2002- $100,888). The fair value of other long-term liabilities approximates their carrying value.

Deferred credits include payments made by developers to the Infrastructure Division of which a portion based on revenue for the development in question needs to be paid back over time. These amounts do not bear interest and the amount to be repaid is uncertain and not determinable. The carrying value is estimated based on historical payment patterns and industry practice.

The Fund's energy-from-waste facility in Peel entered into natural gas purchase contracts whereby the facility has agreed to purchase 416 mmbtu of gas per day from November, 2001 to October, 2004 at a weighted average contract rate of U.S.$3.67 per mmbtu excluding transportation. The facility has also entered into additional natural gas purchase contracts whereby the entity has agreed to purchase 333 mmbtu of natural gas per day from November, 2004 to October, 2007 at contract rates ranging from U.S.$4.16 to U.S.$4.30 per mmbtu including transportation. The market price per mmbtu was U.S. $5.74 at December 31, 2003 (2002 - $5.97 per mmbtu). The fair value of the outstanding futures contracts is U.S.$809 ($1,045) at December 31, 2003 (2002 - U.S. $295).

The Fund's cogeneration facility in Sanger, California entered into natural gas purchase contracts whereby the facility has agreed to purchase 5,500 mmbtus per weekday from December 31, 2002 to July 31, 2006 at the rate of U.S. $4.52 per mmbtus. The market price per mmbtus was U.S. $5.835 at December 31, 2003. The fair value of the outstanding futures contract is U.S. $4,773 ($6,169) at December 31, 2003 (2002 – $607).

The Fund's cogeneration facility in Mahwah, New Jersey entered into price swap contracts to fix the price paid for a portion of the natural gas purchases for the facility. The contracts fix the price of natural gas at U.S.$6.40 per mmbtu for 22,000 mmbtus per month from June 2003 to April 2004. Each month there is a settlement on the difference between the fixed price and the spot price based on the Texas Eastern M-3 price. The Texas Eastern M-3 price at December 31, 2003 was U.S.$6.38 per mmbtu. The fair value of the contract is U.S.($2) at December 31, 2003 (2002 – U.S. $355).

The Fund has entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows are generated in the U.S. The Fund sells specific amounts of currencies at predetermined dates and exchange rates which are matched with the anticipated operational cash flows. Contracts in place at December 31, 2003 include future contracts of U.S. $50,504 until 2008 at a weighted average exchange rate of $1.51. The fair value of the outstanding futures contracts is $65,271 at December 31, 2003 (2002 – ($25)).

15. Cash distributions

Prior to October, 2002, distributable income, as defined in the Declaration of Trust, was distributed to unitholders of record on the last day of each calendar quarter on or before the 45th day of the following calendar quarter. The frequency of cash distributions was changed from quarterly to monthly commencing with the month of October, 2002. Distributions are declared to unitholders of record on the last day of the month and are distributed 45 days after declaration. The monthly distribution was $0.0766 per trust unit for each month for a total of $0.92 for the year.

Distributions per unit declared by the Trustees in 2003 and 2002 were as follows:

	2003	2002
First quarter	$ 0.23	$ 0.23
Second quarter	$ 0.23	$ 0.23
Third quarter	$ 0.23	$ 0.23
Fourth quarter	$ 0.23	$ 0.23

16. Basic and diluted net earnings per trust unit

Net earnings per trust unit has been calculated using the weighted average number of units outstanding during the year. The weighted average number of units outstanding for 2003 was 67,887,612 (2002 – 58,346,032). The net earnings per trust unit for 2003 was $0.66 (2002 - $0.28). The effect of conversion of the KMS convertible debentures into trust units was not included in the computation of fully-diluted net earnings per trust unit as the effect of conversion would be anti-dilutive.

17. Segmented Information

	2003	2002
Revenue		
Canada	$ 52,330	$ 48,312
United States	101,891	46,451
	$ 154,221	$ 94,763

	2003	2002
Capital assets		
Canada	$ 328,283	$ 336,897
United States	293,768	210,983
	$ 622,051	$ 547,880

	2003	2002
Intangible assets		
Canada	$ 29,130	$ 31,134
United States	53,204	29,992
	$ 82,334	$ 61,126

Revenues are attributable to the two countries based on the location of the underlying generating and infrastructure facilities.

Operational segments

The Fund identifies four business categories it operates in: hydro, natural gas cogeneration, alternative fuels and infrastructure. The operations and assets for these segments are outlined on the following page:

12 months ended December 31, 2003

Revenue	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Administration	Total
Energy sales	44,413	61,890	6,423	-	-	112,726
Waste disposal fees		-	14,650	-	-	14,650
Water reclamation and distribution	-	-	-	20,237	-	20,237
Interest and dividend income	494	4,641	1,150	45	278	6,608
Total Revenue	44,907	66,531	22,223	20,282	278	154,221
Operating expenses	15,862	42,758	12,895	9,165	-	80,680
Operating profit	29,045	23,773	9,328	11,117	278	73,541
Other administration costs	(277)	-	(128)	(81)	10,466	9,980
Interest expense	(5,224)	(666)	(290)	(2,283)	(3,168)	(11,631)
Amortization of capital assets	(9,889)	(5,647)	(4,398)	(5,490)	-	(25,424)
Amortization of intangible assets	(346)	(2,489)	(2,024)	(91)	-	(4,950)
Earnings before income taxes and minority interest	13,309	14,971	2,488	3,172	7,576	41,516
Capital assets	289,317	96,616	90,753	145,365	-	622,051
Intangible assets	23	36,623	30,141	15,547	-	82,334
Capital expenditures	8	37,762	295	85,149	-	123,214
Intangible expenditures	-	12,395	-	14,919	-	27,314
Total assets	308,700	191,941	131,899	169,704	18,051	820,295

12 months ended December 31, 2002

Revenue	Hydro	Cogeneration	Alternative Fuels	Infrastructure	Administration	Total
Energy sales	40,681	23,566	4,994	-	-	69,241
Waste disposal fees	-	-	10,697	-	-	10,697
Water reclamation and distribution	-	-	-	7,974	-	7,974
Interest and dividend income	674	3,758	1,470	98	851	6,851
Total Revenue	41,355	27,324	17,161	8,072	851	94,763
Operating expenses	14,370	12,255	9,869	3,394	-	39,888
Operating profit	26,985	15,069	7,292	4,678	851	54,875
Other administration costs	(371)	-	(286)	(63)	(7,050)	(7,770)
Interest expense	(5,234)	(479)	(539)	(140)	(1,990)	(8,382)
Amortization of capital assets	(10,290)	(2,339)	(3,332)	(1,245)	-	(17,206)
Amortization of intangible assets	(428)	(1,193)	(1,541)	(11)	-	(3,173)
Earnings before income taxes and minority interest	10,662	11,058	1,594	3,219	(8,189)	18,344
Capital assets	333,431	62,726	92,947	58,776	-	547,880
Intangible assets	1,490	26,428	32,488	720	-	51,126
Capital expenditures	684	68,503	89,695	47,752	-	206,634
Intangible expenditures		27,620	34,018	731	-	61,126
Total assets	355,255	143,759	139,576	62,649	21,799	723,038

All energy sales are earned from contracts with large public utilities. The following utilities contributed more than 10% of these total revenues in either 2003 or 2002: Ontario Electricity Financial Corporation 10% (2002 – 15%), Public Service of New Hampshire 8% (2002-12%), Hydro Québec 14% (2002-22%), Pacific Gas and Electric 18% (2002-26%), and Connecticut Light and Power 31% (2002-0%). The Fund has mitigated its credit risk to the extent possible by selling energy to these large utilities in various North American locations.

18. Joint venture investments

		Fund's Proportionate Share			
	Owners Interest	Income Before Income Tax Year ended December 31		Net Assets December 31	
		2003	2002	2003	2002
Valley Power Limited Partnership	50%	$ 173	$ 70	$ 8,912	$ 9,801
Campbellford Limited Partnership	50%	188	244	3,921	4,177
		$ 361	$ 314	$ 12,833	$ 13,978

19. Guarantees

In the normal course of operations, the Fund executes agreements that provide for guarantees to third parties. The Fund provided guarantees under the following agreements:

- Letter of credit in the amount of U.S. $19,200 to cover the Sanger Bonds (note 7).
- A letter of credit in the amount of $3,500 to cover liquidated damages pursuant to the Waste Supply Agreement with the Region of Peel regarding the Peel energy-from-waste facility.
- A letter of credit in the amount of $1,000 to cover liquidated damages with the Ontario Ministry of Environment regarding the Peel energy-from-waste facility.
- A letter of credit in the amount of $1,000 to cover liquidated damages with the Ministry of Environment (Alberta) regarding the Dickson Dam facility.

CORPORATE INFORMATION AND CONTACTS

Trustees

Kenneth Moore, Chairman – Managing Partner, NewPoint Capital Partners Inc.
Christopher J. Ball – Executive Vice-President, Corpfinance International Limited
George Steeves – Principal, True North Energy (1169417 Ontario Inc.)

The Management Group

Algonquin Power Management Inc.

Chris K. Jarratt, Chief Executive Officer and Director
John M.H. Huxley, Director
Ian E. Robertson, Director
David C. Kerr, Director

Algonquin Power Income Fund

Peter Kampian, Chief Financial Officer

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Annual General Meeting

May 26, 2004, 4:00 p.m.
Blake, Cassels & Graydon LLP
199 Bay Street, Floor 23
Toronto, Ontario

Stock Exchange

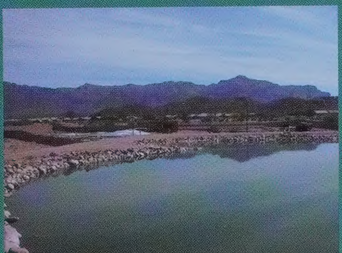
The Toronto Stock Exchange: APF.UN

Auditors

KPMG LLP
Toronto, Ontario

Legal Counsel

Blake, Cassels & Graydon LLP
Toronto, Ontario



Alternative Fuels

Brooklyn, Nova Scotia • Chapais, Québec • Joliet, Illinois • Peel Energy from Waste, Ontario • Valley Power, Alberta

Cogeneration

Cardinal, Ontario • Cochrane, Ontario • Kirkland Lake, Ontario • Crossroads, New Jersey • Sanger, California • Windsor Locks, Connecticut

Hydroelectric

Adams, New York • Arthurville, Québec • Ashuelot, New Hampshire • Avery, New Hampshire • Belleterre, Québec • Burgess Dam, Ontario
Burt Dam, New York • Campbellford, Ontario • Christine Falls, New York • ChuteFord, Québec • Clement Dam, New Hampshire • Côte Ste-Catherine, Québec
Cranberry Lake, New York • Dickson Dam, Alberta • Donnacona, Québec • Drag Lake, Ontario • Forestport, New York • Franklin, New Hampshire • Great Falls, New Jersey
Gregg Falls, New Hampshire • Hadley, New Hampshire • Herkimer, New York • Hollow Dam, New York • Hopkinton, New Hampshire • Hurdman Dam, Ontario
Kayuta Lake, New York • Kings Falls, New York • Lakeport, New Hampshire • Lochmere, New Hampshire • Long Sault Rapids, Ontario • Lower Robertson, New Hampshire
Milton, New Hampshire • Mine Falls, New Hampshire • Moretown, Vermont • Mont-Laurier, Québec • Odgensburg, New York • Otter Creek, New York
Pembroke, New Hampshire • Phoenix, New York • Rattle Brook, Newfoundland • Rawdon, Québec • Rivière-du-Loup, Québec • Saint-Alban, Québec
Ste-Brigitte, Québec • St-Hyacinthe, Québec • St-Raphaël, Québec • Worcester, Vermont

Infrastructure

Bella Vista, Arizona • Black Mountain, Arizona • Gold Canyon, Arizona • Litchfield Park, Arizona • Tall Timbers, Texas • Woodmark, Texas

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